

Idaho Economic Forecast

The following tables and text are taken from the
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EXECUTIVE SUMMARY

The Gem State's economy is expected to shift into a lower gear over the forecast horizon. Idaho nonfarm employment is forecast to rise 2.3% this year, 2.4% next year, 2.4% in 2003, and 2.2% in 2004. However, this is still faster than national employment growth, which is expected to increase 1.1% in 2001, 1.2% in 2002, 2.0% in 2003, and 1.7% in 2004. One of the reasons Idaho outperforms the nation is because its manufacturing sector is expected to enjoy robust health while the nation's manufacturing sector sheds jobs. Idaho nominal personal income also advances faster than its national counterpart. However, the difference between these two measures may seem smaller than anticipated given the differences in job growth. This is because the national average annual wage is projected to rise faster than the Idaho average wage in every year of the forecast.

The U.S. economy is expected to slow this year, after posting an impressive gain in 2000. After years of clear skies, the current forecast calls for a cloudier outlook. DRI has identified four factors that could complicate the economy's journey over the short term. The first factor is high energy costs. The second factor is the stock market. Despite its recent slide, it remains overvalued and could be subject to further correction. The price/earnings ratio for the U.S. stock market stands near 23. Based on current earning estimates, the forward price/earnings ratio should be about 18, suggesting the market is still overvalued. The third factor is falling consumer spending. Swelling stock portfolios justified the shift in funds from saving to spending. The wealth effect also contributed to spending. Recent declines in the stock market have dampened consumer confidence and may cause a retreat from consumers' spendthrift spending. The fourth factor is the ballooning trade deficit. In the short run, these deficits do not present a problem. But in the long run, they will become increasingly hard to finance.

It should be noted that this Idaho economic forecast assumes that the Federal Reserve successfully slows the U.S. economy without plunging it into a recession. While there is a wealth of evidence to suggest that this is the most likely outcome, this result is by no means a given. In order to accomplish this, the nation's central bank would have pull off a rare second-straight soft landing. This maneuver is difficult enough even under the best circumstances. However, current conditions have complicated this policy. A policy misstep or unfortunate combination of factors could result in the economy performing below par. These results would be felt at the local level.

IDAHO ECONOMIC FORECAST

EXECUTIVE SUMMARY

JANUARY 2001

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
GDP (BILLIONS)										
Current \$	7,401	7,813	8,318	8,790	9,299	9,997	10,552	11,185	11,939	12,680
% Ch	4.9%	5.6%	6.5%	5.7%	5.8%	7.5%	5.5%	6.0%	6.7%	6.2%
1996 Chain-Weighted	7,544	7,813	8,159	8,516	8,876	9,343	9,677	10,097	10,579	10,979
% Ch	2.7%	3.6%	4.4%	4.4%	4.2%	5.3%	3.6%	4.3%	4.8%	3.8%
PERSONAL INCOME - CURR \$										
Idaho (Millions)	22,869	24,174	25,217	26,986	28,582	30,767	32,708	34,688	36,899	39,177
% Ch	6.9%	5.7%	4.3%	7.0%	5.9%	7.6%	6.3%	6.1%	6.4%	6.2%
Idaho Nonfarm (Millions)	22,073	23,298	24,548	26,067	27,633	29,854	31,645	33,622	35,817	38,082
% Ch	6.6%	5.6%	5.4%	6.2%	6.0%	8.0%	6.0%	6.2%	6.5%	6.3%
U.S. (Billions)	6,201	6,547	6,937	7,391	7,790	8,290	8,768	9,260	9,840	10,431
% Ch	5.3%	5.6%	6.0%	6.5%	5.4%	6.4%	5.8%	5.6%	6.3%	6.0%
PERSONAL INCOME - 1996 \$										
Idaho (Millions)	23,359	24,172	24,736	26,190	27,259	28,642	29,964	31,309	32,684	33,911
% Ch	4.5%	3.5%	2.3%	5.9%	4.1%	5.1%	4.6%	4.5%	4.4%	3.8%
Idaho Nonfarm (Millions)	22,545	23,297	24,079	25,298	26,353	27,792	28,990	30,346	31,725	32,962
% Ch	4.2%	3.3%	3.4%	5.1%	4.2%	5.5%	4.3%	4.7%	4.5%	3.9%
U.S. (Billions)	6,334	6,547	6,805	7,173	7,430	7,718	8,033	8,358	8,716	9,029
% Ch	3.0%	3.4%	3.9%	5.4%	3.6%	3.9%	4.1%	4.0%	4.3%	3.6%
HOUSING STARTS										
Idaho	9,359	9,221	8,853	10,113	10,324	11,054	10,355	9,942	9,806	9,899
% Ch	-26.7%	-1.5%	-4.0%	14.2%	2.1%	7.1%	-6.3%	-4.0%	-1.4%	0.9%
U.S. (Millions)	1,361	1,469	1,475	1,621	1,676	1,599	1,536	1,629	1,735	1,767
% Ch	-5.9%	7.9%	0.4%	9.9%	3.4%	-4.6%	-3.9%	6.1%	6.5%	1.8%
TOTAL NONFARM EMPLOYMENT										
Idaho (Thousands)	477.4	492.6	508.7	521.5	539.1	558.6	571.3	584.8	599.1	612.5
% Ch	3.5%	3.2%	3.3%	2.5%	3.4%	3.6%	2.3%	2.4%	2.4%	2.2%
U.S. (Millions)	117.2	119.6	122.7	125.8	128.8	131.5	132.9	134.6	137.2	139.5
% Ch	2.7%	2.1%	2.6%	2.6%	2.3%	2.1%	1.1%	1.2%	2.0%	1.7%
SELECTED INTEREST RATES										
Federal Funds	5.8%	5.3%	5.5%	5.4%	5.0%	6.2%	6.3%	5.9%	5.8%	5.8%
Bank Prime	8.8%	8.3%	8.4%	8.4%	8.0%	9.2%	9.3%	8.9%	8.8%	8.8%
Existing Home Mortgage	7.8%	7.7%	7.7%	7.1%	7.3%	8.0%	7.1%	6.6%	6.5%	6.5%
INFLATION										
GDP Price Deflator	2.2%	1.9%	1.9%	1.3%	1.5%	2.2%	1.8%	1.6%	1.9%	2.3%
Personal Cons Deflator	2.3%	2.1%	1.9%	1.1%	1.8%	2.4%	1.6%	1.5%	1.9%	2.3%
Consumer Price Index	2.8%	2.9%	2.3%	1.6%	2.2%	3.4%	2.2%	1.7%	1.9%	2.4%

National Variables Forecast by Standard and Poor's DRI
Forecast Begins the THIRD Quarter of 2000

IDAHO ECONOMIC FORECAST

EXECUTIVE SUMMARY

JANUARY 2001

	2000				2001				2002			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP (BILLIONS)												
Current \$	9,753	9,946	10,063	10,228	10,355	10,486	10,615	10,751	10,927	11,088	11,269	11,456
% Ch	8.3%	8.2%	4.8%	6.7%	5.0%	5.2%	5.0%	5.2%	6.7%	6.0%	6.7%	6.8%
1996 Chain-Weighted	9,192	9,319	9,382	9,479	9,558	9,634	9,715	9,803	9,921	10,030	10,155	10,280
% Ch	4.8%	5.6%	2.7%	4.2%	3.4%	3.2%	3.4%	3.6%	4.9%	4.5%	5.1%	5.0%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	30,149	30,530	31,022	31,366	32,018	32,487	32,930	33,396	33,926	34,435	34,934	35,456
% Ch	10.8%	5.2%	6.6%	4.5%	8.6%	6.0%	5.6%	5.8%	6.5%	6.1%	5.9%	6.1%
Idaho Nonfarm (Millions)	29,335	29,684	29,988	30,409	30,973	31,432	31,861	32,312	32,850	33,361	33,873	34,403
% Ch	14.0%	4.8%	4.2%	5.7%	7.6%	6.1%	5.6%	5.8%	6.8%	6.4%	6.3%	6.4%
U.S. (Billions)	8,106	8,242	8,354	8,458	8,606	8,718	8,820	8,927	9,063	9,192	9,322	9,461
% Ch	6.9%	6.9%	5.5%	5.1%	7.2%	5.3%	4.7%	4.9%	6.3%	5.8%	5.8%	6.1%
PERSONAL INCOME - 1996 \$												
Idaho (Millions)	28,287	28,498	28,803	28,978	29,487	29,807	30,119	30,443	30,808	31,150	31,474	31,802
% Ch	7.0%	3.0%	4.3%	2.5%	7.2%	4.4%	4.3%	4.4%	4.9%	4.5%	4.2%	4.2%
Idaho Nonfarm (Millions)	27,524	27,709	27,843	28,093	28,524	28,839	29,141	29,455	29,831	30,179	30,517	30,858
% Ch	10.1%	2.7%	1.9%	3.7%	6.3%	4.5%	4.3%	4.4%	5.2%	4.8%	4.6%	4.5%
U.S. (Billions)	7,606	7,694	7,758	7,814	7,926	7,999	8,067	8,138	8,231	8,315	8,399	8,486
% Ch	3.3%	4.7%	3.3%	2.9%	5.8%	3.8%	3.4%	3.5%	4.6%	4.2%	4.1%	4.2%
HOUSING STARTS												
Idaho	11,443	11,687	10,704	10,382	10,417	10,406	10,355	10,242	10,087	9,966	9,887	9,829
% Ch	49.2%	8.8%	-29.6%	-11.5%	1.4%	-0.4%	-1.9%	-4.3%	-5.9%	-4.7%	-3.1%	-2.3%
U.S. (Millions)	1.732	1.605	1.527	1.532	1.516	1.522	1.539	1.566	1.587	1.612	1.644	1.673
% Ch	10.5%	-26.3%	-17.9%	1.2%	-4.0%	1.6%	4.5%	7.1%	5.5%	6.6%	8.0%	7.5%
TOTAL NONFARM EMPLOYMENT												
Idaho (Thousands)	551.7	559.7	560.2	562.8	566.2	569.8	573.0	576.3	579.6	582.9	586.5	590.1
% Ch	4.3%	5.9%	0.4%	1.8%	2.4%	2.6%	2.3%	2.3%	2.3%	2.3%	2.5%	2.4%
U.S. (Millions)	130.6	131.6	131.6	132.1	132.4	132.8	133.1	133.3	133.7	134.2	134.8	135.4
% Ch	2.6%	2.9%	0.2%	1.5%	1.0%	1.1%	0.8%	0.8%	1.3%	1.4%	1.8%	1.9%
SELECTED INTEREST RATES												
Federal Funds	5.7%	6.3%	6.5%	6.5%	6.5%	6.5%	6.3%	6.0%	6.0%	5.9%	5.8%	5.8%
Bank Prime	8.7%	9.2%	9.5%	9.5%	9.5%	9.5%	9.3%	9.0%	9.0%	8.9%	8.8%	8.8%
Existing Home Mortgage	8.0%	8.2%	8.1%	7.6%	7.3%	7.2%	7.0%	6.8%	6.7%	6.6%	6.5%	6.5%
INFLATION												
GDP Price Deflator	3.3%	2.4%	2.0%	2.1%	1.6%	1.9%	1.6%	1.5%	1.7%	1.5%	1.6%	1.7%
Personal Cons Deflator	3.5%	2.1%	2.2%	2.0%	1.3%	1.5%	1.3%	1.3%	1.5%	1.5%	1.6%	1.8%
Consumer Price Index	4.3%	3.7%	3.1%	2.7%	1.8%	1.9%	1.6%	1.6%	1.7%	1.6%	1.7%	1.8%

National Variables Forecast by Standard and Poor's DRI
Forecast Begins the THIRD Quarter of 2000

NATIONAL FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 2000 to the Fourth Quarter of 2004

The U.S. economy is expected to slow this year, after posting an impressive gain in 2000. This outlook was stronger than had been expected last January. In the previous forecast, real GDP was projected to rise a healthy 3.4%. It is currently predicted that real GDP will grow a robust 5.3% in 2000, well above all but the most optimistic estimates of its potential. Interestingly, the previous forecast predicted the economy would slow during the first half of 2000 before rebounding in its second half. History has proven the opposite to be true. Real GDP surged during the first half of last year, but has slowed noticeably in recent months. For example, real GDP grew at a 4.8% annual pace in the first quarter of this year, and by less than half that rate (2.2%) in the third quarter. Thus, instead of strengthening, the economy is weakening during the second half of the year.

After years of clear skies, the current forecast calls for a cloudier outlook. DRI has identified four factors that could complicate the economy's journey over the short term. The first factor is high energy costs. Oil prices have nearly tripled from their early-1999 level. In the event of a severe winter or supply disruption, prices could go even higher. This could have significant repercussions. All three of the last recessions were due to troubles in the Middle East and rising oil prices. In addition, natural gas prices are also jumping. Nevertheless, a case for guarded optimism can be made. First, the inflation-adjusted price of oil is not dangerously high. Second, the U.S. economy is less dependent on oil than it used to be. Third, higher prices should boost exploration, which will eventually lead to increased energy supplies.

Despite the stock market's recent dive, it still remains overvalued and could be subject to further correction. The price/earnings ratio for the U.S. stock market stands near 23. Based on current earning estimates, the forward price/earnings ratio should be about 18, suggesting the market is still overvalued. Not surprisingly, all of this excess is concentrated in the high-tech sector. Its price to equity ratio was recently estimated at 34, far higher than any other major sector in the market. The good news is that except for technology, the rest of the market seems fairly valued.

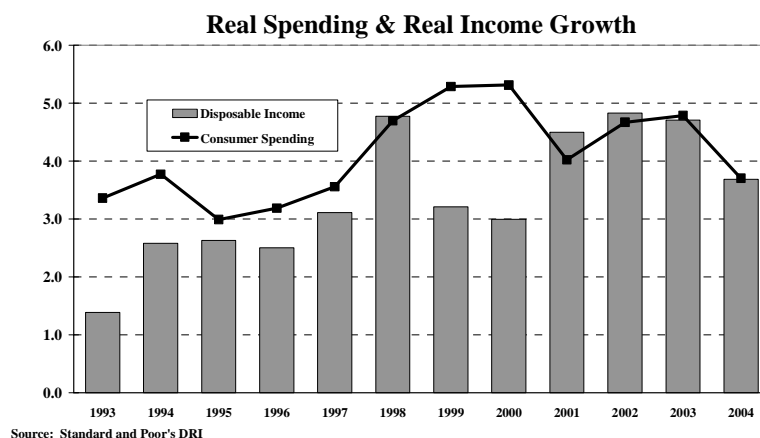
The impact of the falling stock market on consumption is not a trivial question. Consumer spending has played an important role in the current expansion, and it has benefited from swelling finance portfolios. Over the last few years, American households have seen their ratio of assets to income rise above six, which is well above the more typical four to five. This was interpreted as the stock market doing the savings for households. This redirected funds to spending, causing the personal saving rate to plunge. The wealth effect also contributed to spending. However, it still is not clear how falling asset values will impact consumer spending. It is likely that this will induce more thrift on the part of consumers, but the actual degree of restraint remains to be seen.

While everyone watched in awe at the shrinking federal budget deficit, it seems that no one noticed the ballooning U.S. trade deficit. It is estimated that in 2000 the U.S. trade deficit averaged \$426.4 billion, an increase from 1999's \$331.5 billion. It should be noted that the United State's largest trade deficit is with Asia, mostly Japan and China. The reason for this country's trade position with Japan is clear. Exports to Japan have been limited by that country's poor economic health, while imports from Japan have risen as it tries to export its way back to prosperity. The United State's trade deficit with China is actually larger than its deficit with Japan. In the short run, these deficits do not present a problem. But in the long run, they will become increasingly hard to finance.

The current forecast assumes the economy will successfully clear these hurdles. That is, the economy should slow, but it will not stall or retreat over the forecast period.

SELECTED NATIONAL ECONOMIC INDICATORS

Consumer Spending: It appears the high-flying consumer sector is poised to return to earth. Boosted by growing confidence, real consumer spending surged at seemingly unsustainable levels during most of the 1990s. Generally, it would be expected that in the long run real consumer spending would expand no faster than real disposable income. However, in the eight-year period containing the years 1993 to 2000, real consumer spending exceeded real disposable income growth in all but one year. Growth in the initial years reflected



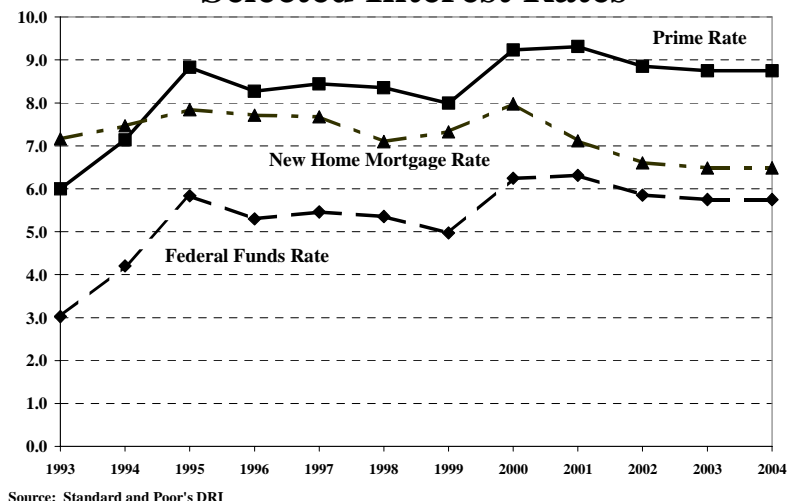
the usual recovery from an economic slowdown. During the 1990-91 recession, real spending contracted as consumers put off making large purchases until they were confident the economy was once again expanding. Spending on these deferred purchases accounted for a large portion of the increase in consumer expenditures. However, spending did not taper off once this pent-up demand was satisfied. The tightest job market in a generation, a strong stock market, and low inflation fueled consumer confidence levels that kept consumers spending above their means. Consumers increasingly turned to debt and savings in order to keep spending faster than income was growing. From 1992 to 2000, outstanding consumer credit (not including mortgage or lease payments) increased an average of 8.5% per year, nearly doubling from \$782.2 billion to \$1.5 trillion. Looked at another way, the ratio of outstanding credit to disposable income rose from 16.5% in 1992 to 21.4% in 2000. American households have also used savings to finance their collective spending spree. Specifically, the U.S. personal savings rate dropped from nearly 9.0% in 1992 to virtually zero in 2000. In fact, in the summer of 2000, the personal savings rate turned negative. In all fairness, the savings rate slide is not solely caused by spendthrift consumers. To the chagrin of financial planners, Americans are not regular savers. Instead, Americans need a reason to set aside money. They save for a college education for their children or a down payment for a house. Once the target is met, saving stops. Another reason for the dismal savings is that Americans are richer. Over the last few years, the soaring stock market has raised wealth to over six times income. This is well in excess of the 4-5 times wealth-to-income ratio that held from the 1960s through the first half of the 1990s. Higher wealth also helps consumption because it is estimated that for every additional \$100 wealth, \$2.50 is spent. Unfortunately, the years of 20%-plus stock market gains appear to be behind us, and this, compounded with already high debt loads and a loosening job market, should cause consumer confidence to drop and real consumer spending to slow. Already, weaknesses are starting to appear. For example, consumer confidence fell for three consecutive months in late 2000. Credit levels have risen more slowly in recent months, as consumers have resisted purchasing big-ticket items. Automobile purchases have been particularly hard hit despite heavy discounting. As other factors play less of a role in propping up spending, real disposable income growth should once again set its upper limit. This being the case, it is important to note real disposable income should advance 3.0% in 2000, 4.5% in 2001, 4.8% in 2002, 4.7% in 2003, and 3.7% in 2004. Real consumer spending is expected to rise 5.3% in 2000, 4.0% in 2001, 4.7% in 2002, 4.8% in 2003, and 3.7% in 2004.

Financial: The Federal Reserve is done tightening for this business cycle. The last time the nation's central bank raised its federal funds rate target was in May 2000. The third quarter 2000 economic slowing suggests that the monetary brakes are working. The timing is right on schedule; the first rate hike was in June 1999, and the cooling down commenced a year later. The next Federal Reserve move is likely to be downward, but not until later this year. The inflation wary Federal Reserve would like to

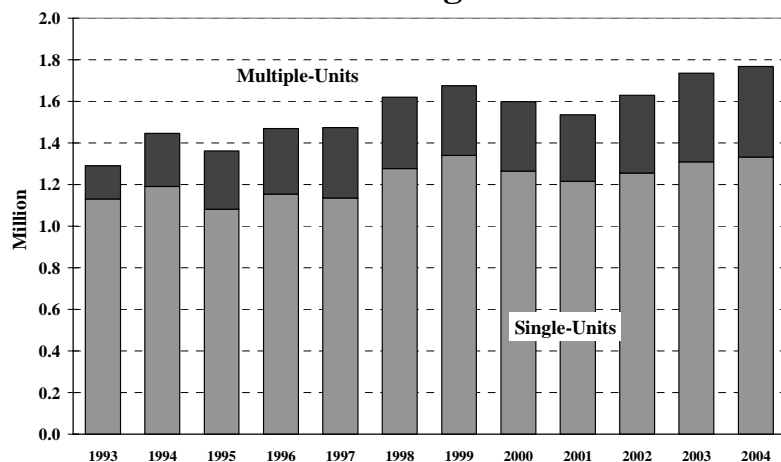
keep interest rates stable until it is convinced that the need to tighten is over, and there is good reason to loosen. The central bank may also want to wait until President Bush's economic plans are clearer, since fiscal stimulus may require higher interest rates. It should be noted that low inflation has been one of the Federal Reserve's strongest allies recently. Real interest rates are the highest they have been since 1989, not because nominal interest rates are high, but because inflation has been so low. It is also worth mentioning that the Federal Reserve remains zealous in its fight against inflation. If core inflation begins

to take off, the Federal Reserve will likely slam on the monetary brakes. In other financial news, it appears that the stock market remains overvalued, but not by as much as it was at the beginning of 2000. Most of this overvaluation can be traced to technology stocks. For example, the price/earning ratio for technology companies was around 36 late last year. In comparison, the price/earning ratio for non-technology stocks was under 20, which seemed to be in line with fundamentals. The current outlook calls for the stock market to advance by less than 10% annually over the next five years.

Selected Interest Rates



U.S. Housing Starts



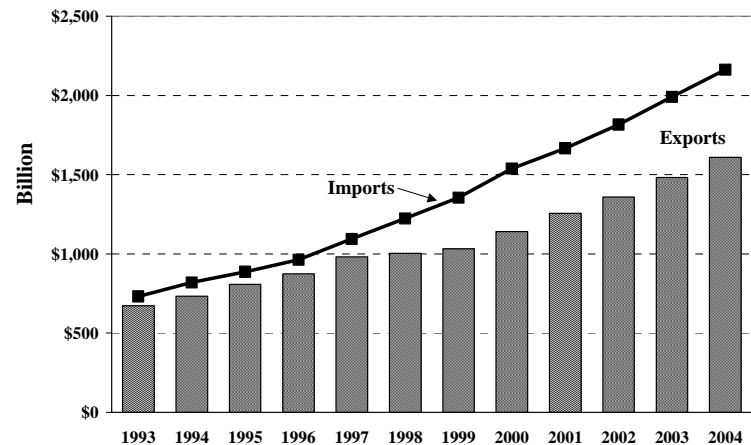
Housing: A review of several housing industry indicators fails to present a clear picture for the future. This represents a change from the recent past when key factors pointed toward sustained, strong growth. This is not to say the outlook has weakened, it is just harder to determine. For example, a recent Fannie Mae report shows a 20-percentage-point decline in the number of persons considering it a good time to buy a home compared to last year. Other evidence supports these findings. The University of Michigan survey of consumer sentiment recorded a five-percentage-point decline in the number of respondents with favorable home-

buying attitudes during October 2000 and an eight-percentage-point increase in the number of households that thought home prices were high enough to delay purchases. This should raise some warning flags because housing is usually one of the first victims in an economic slowdown. On the other hand, not all the news is bad. In the Fannie Mae survey, nearly one in four respondents said they still plan to buy homes in the next three years. Perhaps these households have concerns about the overall economy, but feel comfortable with their own financial situations. Perhaps falling interest rates are too tempting to resist. The interest rate on an average 30-year mortgage peaked at 8.6% in May 2000, but dropped below 8.0% this fall. Indeed, the housing industry seemed healthy last fall. In September 2000, new home sales grew at a 9.2% annual rate and existing home sales remained strong. The current forecast calls for a finely tuned slowdown in the housing industry. This year, home sales should drift into the 5.8-6.0 million-unit range. Housing starts are expected to slip from 1.6 million

units in 2000 to 1.5 million units in 2001. However, this industry should recover quickly. Specifically, U.S. housing starts should climb from 1.5 million units in 2001, to 1.6 million units in 2002, to 1.7 million units in 2003, and to 1.8 million units in 2004.

International: In the late 1990s the so-called twin deficits, trade and federal budget, hit a fork in the road and went their separate ways. Both expanded relentlessly since the 1980s. However, thanks in large part to fast rising federal revenues caused by the booming national economy, the unified federal budget deficit began shrinking in federal fiscal year 1993, and it has been in surplus since fiscal year 1998. On the other hand, the record-long U.S. economic expansion has contributed to a deepening of the nation's trade deficit. Since achieving a rare surplus in 1991, the U.S. current account deficit has swelled to \$426.4 billion in 2000. The current forecast calls for this deficit to grow even larger over the next few years, reaching nearly \$600 billion in 2004. This outlook reflects the U.S. continued economic strength compared to some of the world's larger economies. For example, the U.S. real GDP growth is anticipated to average 4.3% per year over the 2002-2004 period. This will benefit our NAFTA partners. Canada, which has grown slightly slower than the U.S., is expected to continue this trend into the near future, with its real GDP advancing about 3.7% annually. Mexico's economy has grown faster than the U.S. economy, and should continue to do so through 2004. Mexico's economy is showing good health. It is benefiting from the strong demand from the U.S. At the same time, inflation continues to decline and real wages have climbed. The forecast for Japan is not as rosy. Although, the world's second largest economy has shown intermittent signs of life, a sustained recovery has remained elusive. Federal spending has proven to be a short-lived stimulant, but a longer term relief from this country's economic doldrums will only come when it gets its economic house in order. Huge amounts of capital remain locked in unproductive enterprises. Not all the news from the Pacific region is bad. Indeed, except for Japan, most of the economies are recovering nicely from the Asian economic crisis. Middle-income Asian nation economies rose 5.8% in 1999 and 6.9% in 2000. They are expected to average 6.3% real growth from 2002 to 2004. Unfortunately, this growth could be threatened by government meddling. For example, the South Korean government has strong-armed banks into keeping insolvent companies afloat in order to stem rising unemployment. This policy will lock up valuable capital in nonproductive enterprises. The economic forecast for the large western European economies—France, Germany, Italy, and the United Kingdom—calls for growth of 2.5%. A major concern is to what extent rising oil prices will sabotage economic growth. The impact varies between the industrialized and non-industrialized countries. It is estimated that oil prices in the \$30-\$35/barrel range will subtract 0.25-0.50 percentage points from GDP growth in the industrialized countries. It exacts a higher toll on developing countries because they are more dependent on oil. For example, it is estimated that a \$5/barrel increase in the price of oil will reduce GDP growth in Bulgaria, South Korea, and Hungary between 1-2 percentage points.

Real U.S. Imports and Exports



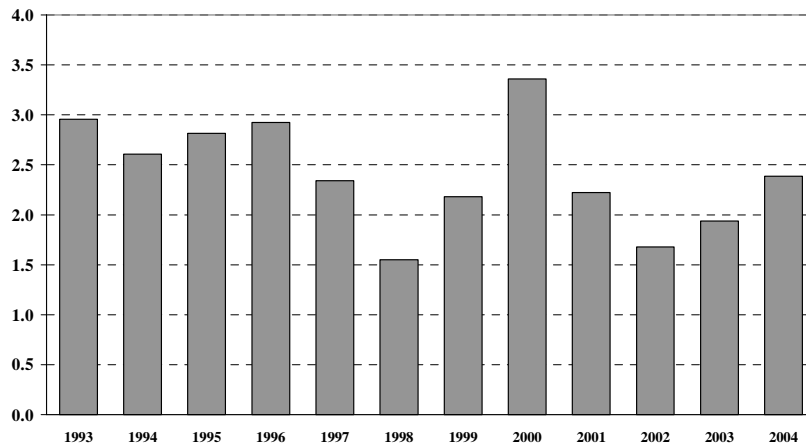
Source: Standard & Poor's DRI

Inflation: Recent evidence suggests that inflationary pressures are receding, which implies the threat of higher inflation is behind us. Two areas that were particularly worrisome, labor costs and import prices, appear to be cooling. Labor costs are a major determinant of core inflation. Given the tightness of the labor market, there have been concerns that these costs could spiral upwards, dragging along the core inflation rate for the ride. However, current data indicates that the employment situation may be

easing and employment costs remain relatively well behaved. The U.S. Department of Labor reported that total nonfarm employment rose by just 94,000 from October 2000 to November 2000. And though the civilian unemployment rate held at 4.0%, both the number of private hours worked and overtime hours worked fell over this period. Other data shows that in the fall of 2000, both hourly wages and the employment cost index were growing at a 4.0% annual rate. Fortunately, productivity growth has been able to offset these gains,

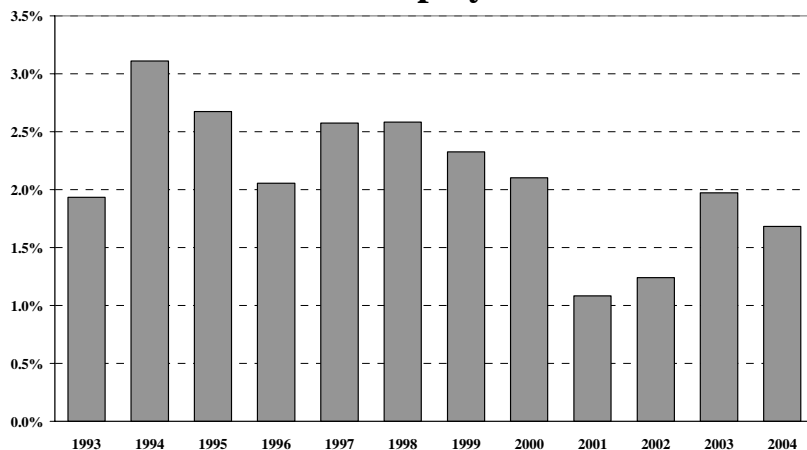
and help keep unit labor costs manageable. The acceleration in import prices in early 2000 was a major concern. This is because low import prices have kept domestic producers from raising their prices in order to remain competitive. If import prices continued to rise, then the U.S. would lose an important check against higher domestic inflation. This does not seem to be the case. In October 2000, import prices declined, as oil prices retreated. But looking past energy prices, import prices actually fell in September and were unchanged in October. On a year-over-year basis, non-petroleum import prices were up just 1% in October 2000. Admittedly, oil prices remain stubbornly high. However, they remain relatively stable. In spite of this, energy price inflation will be a major burden for households and businesses this year. Even before the first major winter storm hit, the public has been put on notice that natural gas and heating oil prices could explode. It is estimated that the price of natural gas rose at a 27.9% annual rate in the second quarter of last year, followed by a 50.1% increase in the third quarter, and an 18.8% rise in the last quarter. The price for fuel oil and coal jumped by a whopping 23.5% annual rate in the second quarter of 2000, but has eased slightly since then. It is believed the earliest relief will come from these runaway increases is in the spring of 2001.

Consumer Price Inflation



Source: Standard and Poor's DRI

U.S. Nonfarm Employment Growth



Source: Standard and Poor's DRI

Employment: The tightest labor market in a generation is beginning to show signs of loosening up. Since April 2000, initial claims for unemployment insurance have been creeping up. Another sign that the labor market is starting to slacken is the duration of unemployment has remained fairly stable. One would expect the average length of time an employee would be out of work would decrease as the supply of excess labor disappeared. Although the average duration is still falling, the median duration held close to six weeks in 2000. In addition, the

proportion of workers unemployed five weeks or less was stable at 45%, after rising steadily for 3 years. Also, the share of unemployed who lost rather than left jobs has begun to rise. The average workweek has slipped below the 34.5-hour average of 1999. Finally, the U.S. unemployment rate has budged from 3.9% in October 2000 to 4.0% in November 2000. Despite, the factors described above, it is important to remember that the labor market remains tight. Even at 4.0%, it is still 1 to 1 1/2

percentage points below most estimates of full employment. Naturally, such a tight labor market leads to worries about wage-push inflation. Wage-push inflation occurs when employers must bid up wages in order to attract relatively scarce labor. Eventually, these higher wages put upward pressures on consumer prices. So far, this has not been a problem. Although the 3.8% year-over-year jump in average hourly earnings during October 2000 was the largest in nearly two years, productivity increases were sufficiently large to cover most of this increase. Nonfarm employment growth is projected to slow over the next two years, then post a slight rally. Over the forecast period, the U.S. civilian unemployment rate is expected to be 4.0% in 2000, 4.4% in 2001, 4.6% in 2002, 4.2% in 2003, and 4.0% in 2004.

IDAHO FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 2000 to the Fourth Quarter of 2004

The Gem State's economy is expected to shift into a lower gear over the forecast horizon. Last year, Idaho's economy displayed surprising strength by outperforming the forecast released in January 2000. At that time, it was projected that Idaho nonfarm employment would advance 2.1% in 2000, a slight drop from the previous year's estimated 2.7% pace. However, no decline took place. In fact, current data show that nonfarm employment growth actually accelerated slightly, from a revised 3.4% in 1999 to 3.6% in 2000. Part of this increase reflects corrections to original data that underestimated historical growth. In addition, several sectors turned in stronger-than-anticipated performances. The goods-producing sector was boosted by a 6.1% increase in electrical and nonelectrical machinery employment and 4.7% rise in the number of construction jobs. The trade sector's employment advanced 3.3% in 2000, compared to the 2.4% growth predicted last year. Services employment was up a whopping 6.2%.

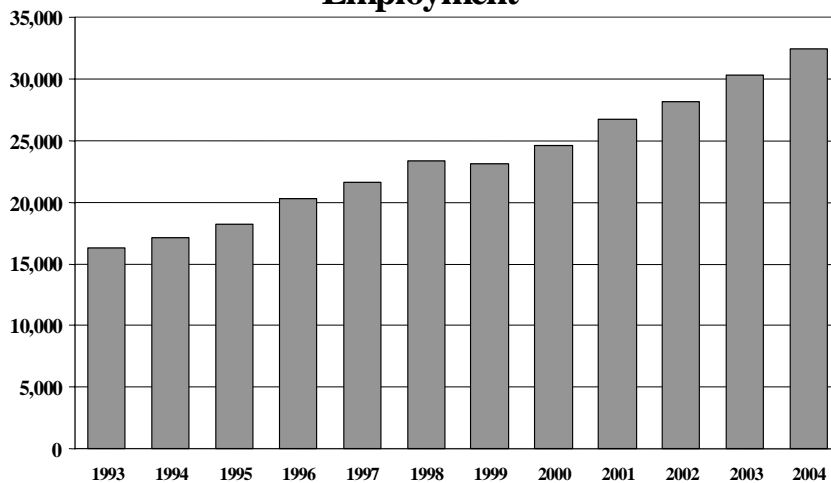
The combination of faster employment and wage growth caused Idaho personal income to rise more rapidly than expected in 2000. The average wage advanced 5.6% last year, which was well above the prediction of 4.2%. As a result, the wages and salaries component of Idaho personal income grew a healthy 9.1% last year. This helped overall Idaho personal income increase 7.6%, which was 2.0 percentage points faster than the 5.6% projected last year. However, the difference between the current estimate for Idaho real personal income versus last year's estimate is smaller because inflation was higher in 2000 than had been originally estimated. The most widely recognized measure of inflation rose approximately 3.4% in 2000, which was more than the 2.3% pace forecasted earlier. Idaho real personal income rose 5.1% in 2000, compared to the original forecast of 3.8%, a difference of 1.3 percentage points.

As was mentioned above, Idaho's economic performance is expected to slow from last year's showing. Idaho nonfarm employment is forecast to rise 2.3% this year, 2.4% next year, 2.4% in 2003, and 2.2% in 2004. However, this is still faster than national employment growth, which is expected to increase 1.1% in 2001, 1.2% in 2002, 2.0% in 2003, and 1.7% in 2004. One of the reasons Idaho outperforms the nation is because its manufacturing sector is expected to enjoy robust health while the nation's manufacturing sector sheds jobs. Idaho nominal personal income also advances faster than its national counterpart. However, the difference between these two measures may seem smaller than anticipated given the differences in job growth. This is because the national average annual wage is projected to rise faster than the Idaho average wage in every year of the forecast.

It should be noted that this Idaho economic forecast assumes that the Federal Reserve successfully slows the U.S. economy without plunging it into a recession. While there is a wealth of evidence to suggest that this is the most likely outcome, this result is by no means a given. In order to accomplish this, the nation's central bank would have pull off a rare second-straight soft landing. This maneuver is difficult enough even under the best circumstances. However, current conditions have complicated this policy. A policy misstep or unfortunate combination of factors could result in the economy performing below par. These results would be felt at the local level. Two alternate scenarios of the national economy's performance and their impacts on Idaho have been included.

SELECTED IDAHO ECONOMIC INDICATORS

Idaho Electrical & Nonelectrical Employment



Electrical and Nonelectrical Machinery:

The Gem State's electrical and nonelectrical machinery sector should add more jobs over the forecast period than all of the other manufacturing sectors combined. Specifically, of the 10,455 increase in manufacturing jobs from 2000 to 2004, nearly 8,000 will come from the electrical and nonelectrical machinery sector. This industry got a good jump toward this employment target by growing an estimated 1,400 (6.1%) in 2000.

This was a welcome reversal from

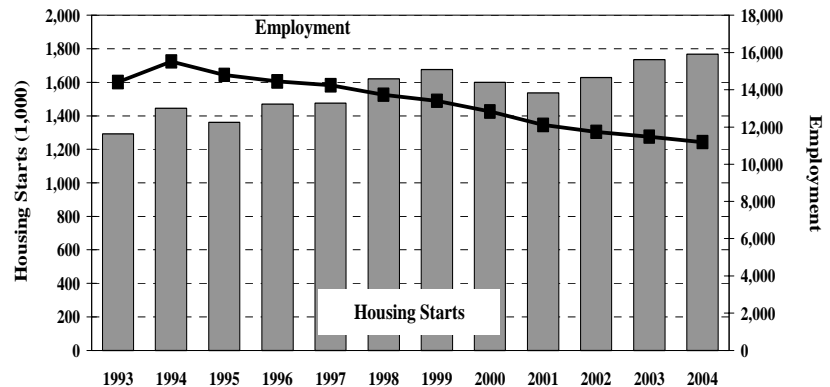
the previous year where employment dipped. This slight (0.7%) decline was the sector's first drop since 1985. Last year's recovery should be just the first installment in a string of strong years. As in the past, the state's high-tech companies will play a large role in fueling Idaho's growth. These companies stand to benefit from the continued demand for their products. For example, production of electronic components jumped nearly 75% in 2000. While it is not expected to match this level of growth over the forecast period, it should continue to post strong gains over the forecast period. This reflects the broadening applications base for electronic components. Once these products were found in only sophisticated and expensive commercial devices. Now, they are essential parts of everyday household appliances. Micron Technology, a world-class manufacturer of computer memory products, should benefit from the strong demand for its products. Micron competes in the world market where it is essentially a price taker. In order for it to be profitable, the company must continually reduce its production costs. This is where the company has excelled. Micron is recognized as the world's lowest cost manufacturer of memory products. This helped the company avoid layoffs during the recent prolonged downturn in memory prices. Its broader product and customer bases also helped it weather the downturn. In order to remain competitive, the company must also continue to grow. It started a \$200 million expansion at its Boise campus that will add 500 more jobs, most of which will be in research and development. The future is bright for other Idaho high-tech companies as well. Less than a year after opening the doors of its new Treasure Valley plant, Jabil Circuit, Inc. has announced plans to double its manufacturing space. Company officials explain that the expansion is in response to anticipated industry growth. This expansion will add up to 700 new jobs over the next few years. This would boost employment to about three times its initial level. Jabil began its Idaho operations just two years ago when it acquired the assets (and employees) of Hewlett-Packard's printer formatter manufacturing operations. The sale of these assets reflected Hewlett-Packard's strategy to refocus the Boise site's mission towards research and development and away from manufacturing. As a result of that move, Hewlett-Packard's employment in Idaho has remained near the 4,000 level in recent years. In other high-tech news, none of the 1,200 employees of American Microsystems Incorporated of Pocatello should be affected by the 80 percent buyout of the company by two global investment groups. The majority share of the company was previously owned by GA-TEK, which is a wholly owned subsidiary of Japan Energy Corporation. A few Zilog workers will not be as fortunate. Citing adverse market conditions, about a dozen employees at the company's Nampa plant will lose their jobs.

Idaho electrical and nonelectrical manufacturing employment is expected to rise 9.0% in 2001, 5.4% in 2002, 7.5% in 2003, and 7.2% in 2004.

Lumber and Wood Products: As predicted, employment in the state's lumber and wood products sector fell in 2000. In January 2000, it was projected the number of jobs in this sector would slide by about 500 (3.7%). The most current data available show that the aggregate lumber and wood products payroll actually shrank by 574 (4.3%) jobs. This reduction was the largest annual decline since 1995, when employment decreased 4.7%. Last year's disappointing performance reflects an unfortunate combination of negative factors. First, falling

product prices plagued this industry through most of the year. *Random Lengths* reported that its composite price index for framing lumber dropped from around \$375 per thousand feet in January 2000 to \$283 in November 2000. The composite price for structural panels showed promise by rising to nearly \$350 per thousand feet in March 2000. However, by November 2000 its price had fallen to \$251. These softening prices forced many Idaho mills to curtail their operations. Potlatch Corporation temporarily reduced payrolls by 300 in June 2000. The company also laid off 21 workers at its St. Maries' plywood plant. In July 2000, Regulus Stud Mill's employment fell from 100 to 15 workers. That same month, Louisiana-Pacific shut down its Chilco sawmill and Sandpoint finishing plant, affecting 145 employees. While most of these layoffs were temporary, some were permanent. Potlatch Corporation let go of 140 salaried workers last summer. Crown Pacific closed its 150-employee Coeur d'Alene mill indefinitely in late July 2000. Potlatch shuttered its Jaype Mill near Pierce in August 2000, a move that cost 215 jobs. The Idaho Department of Labor estimates that mill closures or curtailments from May 2000 to September 2000 idled over 1,500 employees. Unfortunately, it appears that low prices may be around a little longer. Part of this outlook reflects the weaker demand caused by the 3.9% drop in national housing starts in 2001. But demand is not the only factor causing lower prices. This industry is awash in supply thanks to excess capacity. One estimate shows the industry is already geared up to produce 20-25% more lumber than is being consumed in North America and Asia. A cause for hope is that Asia, except for Japan, should grow faster than the U.S. economy over the forecast period. Rising fortunes in these countries could help absorb excess supplies. Even when demand picks up, this sector faces other challenges. Most notably, it will be haunted by the uncertainties concerning timber supplies from federal forests. In light of these factors, it does not appear that this sector's job picture will improve in the near future. In fact, Idaho lumber and wood products employment is expected to decline 5.6% in 2001, 3.0% in 2002, 2.2% in 2003, and 2.5% in 2004.

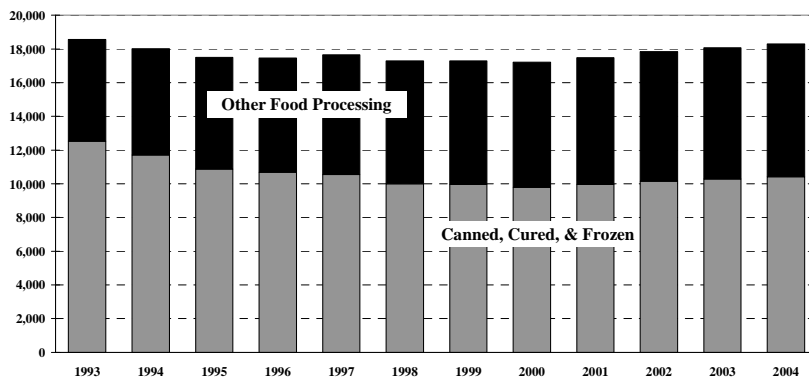
Idaho Lumber & Wood Products Employment and U.S. Housing Starts



Sources: Standard and Poor's DRI and DFM

Food Processing: Employment in the state's enormous food processing sector shrank by almost 1,300 jobs from 1993 to 1999. While some of this loss was due to business downturns, other factors also played a significant role. For example, J.R. Simplot Company closed one of its two Caldwell, Idaho

Idaho Food Processing Employment



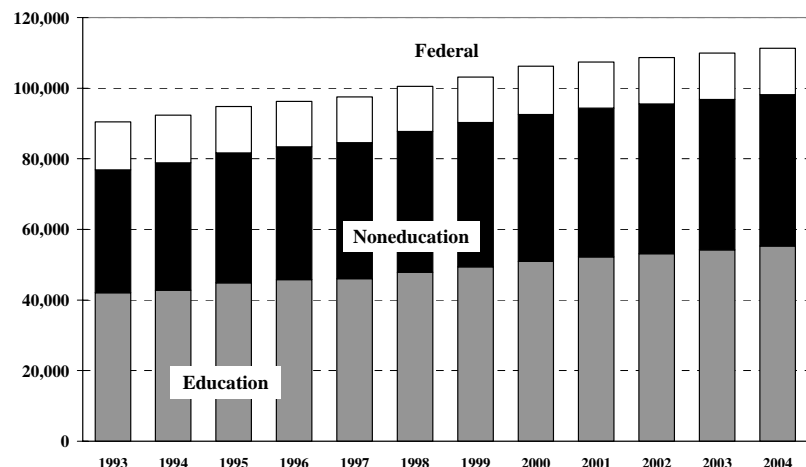
processing plants during this period. Between 300 and 400 jobs were lost as a result of this closure. Another Gem State food processing player, Ore-Ida, reduced its headquarters' staff by about 100 after it sold its food service division to Canadian food processing giant McCain Foods, Ltd. Unfortunately, this was not the last reduction by Ore-Ida. Approximately 400 Idaho jobs were lost in 1999 when H.J. Heinz Company consolidated Ore-Ida

Foods Incorporated and Weight Watchers Gourmet Food Company into the new Heinz Frozen Food Company based in Pittsburgh. Not all the impacts of food processing facilities sales were negative. For example, Suprema Specialties of New Jersey purchased the Snake River Cheese Plant near Blackfoot. Beatrice Cheese had been operating the plant, but stopped production late last year. Suprema will take over operation on January 1, 2001. The plant employs 45 workers and processes milk from 450 dairies. Idaho's dairy industry has thrived in recent years. Idaho is the nation's sixth largest producer of milk. The state's dairy herd increased from 179,000 milk cows in 1990 to 318,000 cows in 1999. The expansion of the herd and higher output per cow caused milk production to climb from about 3 billion pounds to nearly 6.5 billion pounds over this period. The value of the milk produced rose from \$360 million in 1990 to about \$840 million in 1999. Most of the larger dairies are located in the Magic Valley. The state's milk processing industry has expanded along with its dairy herd. From 1995 to 1999, the whole milk equivalent used in Idaho manufactured products jumped over 40.0%, from 3.8 billion pounds to 5.3 billion pounds. Most of this was used to produce American cheese. Glanbia, Inc. is the largest dairy processor in Idaho. It employs over 400 people and has over \$400 million in sales per year. Glanbia, Inc. recently completed a \$33 million expansion to its Gooding cheese processing plant that can process six million pounds of milk per day. Land O' Lakes also completed a huge expansion to its feed-processing plant in Gooding. The Salmon Valley Cheese Factory plans to produce 10 million pounds of cheese annually, and production could expand further in the near future. Idaho food processing employment should advance 1.5% in 2001, 2.1% in 2002, 1.3% in 2003, and 1.2% in 2004.

Federal, State, and Local Governments:

Idaho's state and local government employment growth should slow as Idaho's population growth cools. This should not come as a surprise, given the tight link between government employment and population. This relationship can be seen by reviewing past Idaho employment and population data. The Gem State's population soared from 1,006,734 in 1990 to 1,251,700 in 1999, a 24.3% increase. This jump in population reflected the influx of new citizens into Idaho. The state,

Idaho Government Employment

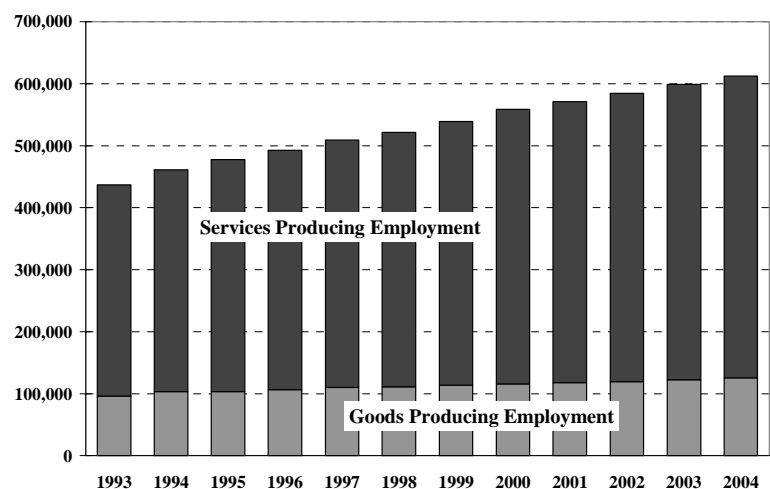


with its robust economy, proved to be an enticing oasis of opportunity when the rest of the nation was mired in the 1990-91 recession. Idaho proved especially attractive to Californians. The Golden State suffered its worst slowdown since the Great Depression in the early 1990s. For example, California lost 2.5% of its nonfarm jobs during the 1990 to 1992 period. Idaho nonfarm employment rose by 31,300 (8.1%) during this same time. A storm surge of migration hit the Gem State in the first half of the 1990s. In each of the three years from 1992 to 1994, net migration was over 20,000. This helped the state's population grow by about 3.0% in each of those years, nearly three times faster than the nation's population. The demands of the expanding population strained government resources. In response to these pressures, Idaho state and local government employment advanced over 3.5% annually during the first half of the decade. As the U.S. economy expanded in the second half of the 1990s, the economic gap between Idaho and other states narrowed. This caused net migration into Idaho to drop off. By the end of the decade, net migration per year was about half its mid-1990s peak. This has caused Idaho state and local government employment growth to slow markedly. While cooling population growth has had an impact, other factors have also come into play. For example, an Idaho law that caps local government budgets has also limited government employment gains. In addition, last year's growth rate will also be impacted by a series break in the education-related employment data. The Idaho Department of Labor recently detected a data problem that inflated this sector's employment by 2,000 persons. In order to correct this, the Department of Labor reduced employment by 2,000 beginning in January 2000. As a result of this adjustment, the decline from the last quarter of 1999 to the first quarter of 2000 is exaggerated, and the 1999 to 2000 year-to-year growth is underestimated. The trends that shaped the second half of the 1990s are expected to continue into the next few years. Idaho state and local government employment is forecast to increase 1.9% in 2001, 1.3% in 2002, 1.3% in 2003, and 1.3% in 2004. Federal government employment in Idaho is largely driven by budget decisions made in Washington, D.C. The recent round of federal budget belt-tightening has caused the number of federal jobs in Idaho to trend downwards in the 1990s. This is expected to continue in through the next few years. Specifically, the number of federal jobs in the Gem State should be 13,648 in 2000, 13,065 in 2001, 13,150 in 2002, 13,137 in 2003, and 13,146 in 2004. The large drop in 2001 reflects the layoff of temporary U.S. Census workers hired in 2000.

Services-Producing Industries: The services-producing sector is the state's largest employer. It alone accounts for about 80% all nonfarm jobs. It consists of finance, insurance, and real estate; transportation, communications, and public utilities; trade; services; and government. Even when government employment is taken out of the services-producing mix, the remainder still accounts for over 60% of all jobs. Not only is this sector diverse, it is also dynamic. For example, it has benefited recently from the growth of call centers in the state. The call centers are involved with catalog sales, help lines,

telemarketing, customer services, and market research. Call centers also encompass a wide variety of business activities. These include manufacturing, transportation, communications, trade, finance, insurance, business services, and research and development. According to Idaho Department of Labor estimates, call centers employed 10,600 persons in July 2000. One of the most pleasing aspects of this

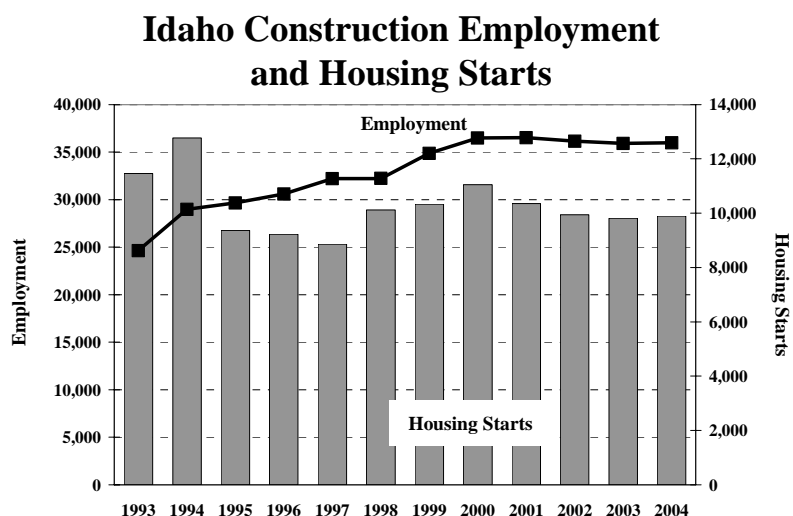
Idaho Nonfarm Employment



growth is how diverse it has been. The GTE order-processing center is in North Idaho, the Carlson Leisure Group call center is in the Treasure Valley, and Convergys Call Center is in Bannock County. Recently, Alaska Air announced plans to open a call center in Boise that will employ 200. Tele-Servicing Innovations will open a call center in Burley that will employ 100 persons. Another source of growth has been business services. Part of its growth reflects contract employees working at manufacturing firms. Although they perform manufacturing tasks, they are employed by employment agencies and are counted as business services employees. Overall, services-producing employment is projected to increase 2.5% in 2001, 2.5% in 2002, 2.4% in 2003, and 2.2% in 2004.

Construction: Idaho's economy will miss the boost provided by the construction sector over most of the state's long expansion. Nonfarm employment in the Gem State has expanded steadily since 1987. Construction employment has increased since 1988. Initially, nonresidential building fueled this sector's growth. However, as the trickle of net migration turned into a flood, residential construction employment surged. In 1988, two years into the state's economic expansion, the number of Idaho housing starts was just 3,334 units. But six years later, in 1996, the number of housing

starts had more than tripled to 12,766 units. From 1988 to 1994, the number of construction jobs in Idaho more than doubled from 14,205 to 28,983. Looked at in another way, Idaho housing starts advanced an incredible 25.1% annually over this period while employed increased a whopping 12.6% per year. The robust housing growth reflected the industry's attempt to catch up to demand. Fortunately, Idaho never developed a serious housing inventory overhang, making the transition from boom to slower times much less painful than usual for this notoriously cyclical industry. For example, housing starts dropped almost 27% from their high in 1994 to 1995. Despite this sharp decline, construction employment, thanks in large part to the strong nonresidential sector, managed to expand 2.2% that year. Since the housing sector's go-go years ended in 1994, Idaho housing starts have averaged between 8,500 and 11,000 units per year. While this is below 1994's peak, it is still well above its early 1980's level. It appears that Idaho construction employment has made a relatively painless transition from its boom. Although housing starts have yet to repeat 1994's record performance, construction employment has expanded in every year since then, albeit at a slower pace than in the recent past. The current projection shows Idaho construction employment will level off at about 36,000 over the forecast period. From 2000 to 2004, Idaho housing starts are expected to slowly decline from 11,054 units to 9,899 units.



ALTERNATIVE FORECASTS

DRI has assigned a 55% probability of occurrence to its November 2000 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP advances 5.3% in 2000, 3.6% in 2001, 4.3% in 2002, 4.8% in 2003, and 3.8% in 2004;
- U.S. nonfarm employment increases 2.1% in 2000, 1.1% in 2001, 1.2% in 2002, and 2.0% in 2003, and 1.7% in 2004;
- the U.S. civilian unemployment rate remains below the full employment rate of 5.5%;
- consumer confidence declines in 2001 and 2002, but recovers in 2003;
- consumer inflation peaks at 3.4% in 2000, then bounces around 2.0% in the remaining years of the forecast;
- the federal budget surplus swells to nearly \$290 billion in 2004;
- and the U.S. merchandise trade deficit continues to widen.

While the baseline scenario represents the most likely path for the national economy over the next few years, uncertainties surrounding several key variables mean other outcomes are also possible. To account for this, DRI prepares alternative forecasts based on different assumptions regarding these key variables. Two of these alternative forecasts, along with their likely impacts on the Idaho economy, are discussed below.

HIGH OIL/HIGH DOLLAR SCENARIO

DRI's *High Oil/High Dollar Scenario* has been assigned a 20% probability of occurrence. This alternative looks into the consequences of a protracted period of high oil prices and a strong dollar. A look at a couple factors show that while this is not likely, it is possible. OPEC producers are using their current windfall profits to pay off debts and finance unmet social and infrastructure needs, not to increase crude oil production. Non-OPEC producers may hesitate to expand exploration and drilling for fear that oil prices will plunge. Eventually, oil production capacity will increase and prices will fall. In the meantime, the dollar could stay strong, since the U.S. economy will suffer less than most countries from high oil prices. The combination of a strong dollar and high, but steady, oil prices restrains inflation, allowing the Federal Reserve to keep interest rates low.

Ironically, when relief from high oil prices finally comes, it causes the economy to slow. The lower oil prices should be a boon to foreign countries, causing their economies to grow faster. As the difference between U.S. and foreign economic growth narrows, the dollar should weaken relative to foreign currencies. This would cause both domestic and foreign demand to surge. This would cause inflation to accelerate. The Federal Reserve would tighten in order to contain inflation. This policy, along with weaker foreign capital inflows, could trigger a bear market, throwing the wealth effect into reverse. Fortunately, stronger exports keep the U.S. economy from falling into a recession.

In this scenario, Idaho's economic growth is marginally slower than in the baseline. Idaho nonfarm employment advances 2.2% annually from 2001 to 2003. In the baseline, it grows just over 2.3% per year. By 2003, Idaho nonfarm employment is 596,600, which is slightly below the baseline's 599,100. Idaho nominal personal income is also slightly lower in 2003, \$36.6 billion compared to the baseline's \$36.9 billion. This relationship persists even after adjusting for inflation. Idaho real personal income is \$32.5 billion in 2003 in this scenario. In the baseline, it is \$32.7 billion.

IDAHO ECONOMIC FORECAST
BASELINE AND ALTERNATIVE FORECASTS
JANUARY 2001

	BASELINE				HIGH OIL/HIGH DOLLAR				PESSIMISTIC			
	2000	2001	2002	2003	2000	2001	2002	2003	2000	2001	2002	2003
GDP (BILLIONS)												
Current \$	9,997	10,552	11,185	11,939	9,996	10,529	11,107	11,783	9,998	10,508	10,879	11,760
% Ch	7.5%	5.5%	6.0%	6.7%	7.5%	5.3%	5.5%	6.1%	7.5%	5.1%	3.5%	8.1%
1996 Chain-Weighted	9,343	9,677	10,097	10,579	9,342	9,656	10,029	10,465	9,343	9,524	9,641	10,318
% Ch	5.3%	3.6%	4.3%	4.8%	5.3%	3.4%	3.9%	4.3%	5.3%	1.9%	1.2%	7.0%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	30,767	32,708	34,688	36,899	30,767	32,686	34,585	36,621	30,769	32,670	34,006	36,317
% Ch	7.6%	6.3%	6.1%	6.4%	7.6%	6.2%	5.8%	5.9%	7.7%	6.2%	4.1%	6.8%
U.S. (Billions)	8,290	8,768	9,260	9,840	8,290	8,755	9,211	9,729	8,290	8,734	9,003	9,656
% Ch	6.4%	5.8%	5.6%	6.3%	6.4%	5.6%	5.2%	5.6%	6.4%	5.4%	3.1%	7.3%
PERSONAL INCOME - 1996 \$												
Idaho (Millions)	28,642	29,964	31,309	32,684	28,642	29,932	31,201	32,475	28,640	29,469	29,846	31,517
% Ch	5.1%	4.6%	4.5%	4.4%	5.1%	4.5%	4.2%	4.1%	5.1%	2.9%	1.3%	5.6%
U.S. (Billions)	7,718	8,033	8,358	8,716	7,718	8,018	8,310	8,627	7,717	7,879	7,901	8,380
% Ch	3.9%	4.1%	4.0%	4.3%	3.9%	3.9%	3.6%	3.8%	3.9%	2.1%	0.3%	6.1%
TOTAL NONFARM EMPLOYMENT												
Idaho (Thousands)	558.6	571.3	584.8	599.1	558.6	571.2	583.7	596.6	558.6	568.7	569.5	583.5
% Ch	3.6%	2.3%	2.4%	2.4%	3.6%	2.2%	2.2%	2.2%	3.6%	1.8%	0.1%	2.5%
U.S. (Millions)	131.5	132.9	134.6	137.2	131.5	132.8	134.0	136.1	131.5	132.0	130.5	134.2
% Ch	2.1%	1.1%	1.2%	2.0%	2.1%	1.0%	0.9%	1.6%	2.1%	0.4%	-1.2%	2.8%
GOODS PRODUCING SECTOR												
Idaho (Thousands)	116.1	117.8	119.7	122.8	116.1	117.8	119.5	122.1	116.1	117.5	117.2	121.6
% Ch	2.3%	1.4%	1.6%	2.5%	2.3%	1.4%	1.4%	2.2%	2.3%	1.1%	-0.2%	3.8%
U.S. (Millions)	25.7	25.3	24.9	24.9	25.7	25.3	24.8	24.6	25.7	25.1	23.7	23.7
% Ch	0.7%	-1.4%	-1.5%	-0.1%	0.7%	-1.4%	-1.9%	-0.8%	0.7%	-2.3%	-5.6%	0.3%
SERVICE PRODUCING SECTOR												
Idaho (Thousands)	442.5	453.5	465.0	476.3	442.5	453.3	464.3	474.5	442.5	451.2	452.3	461.9
% Ch	4.0%	2.5%	2.5%	2.4%	4.0%	2.5%	2.4%	2.2%	4.0%	2.0%	0.2%	2.0%
U.S. (Millions)	105.8	107.6	109.6	112.3	105.8	107.4	109.2	111.5	105.8	107.0	106.8	110.4
% Ch	2.4%	1.7%	1.9%	2.5%	2.4%	1.5%	1.6%	2.1%	2.4%	1.1%	-0.2%	3.4%
SELECTED INTEREST RATES												
Federal Funds	6.2%	6.3%	5.9%	5.8%	6.2%	6.2%	5.5%	5.0%	6.2%	6.7%	3.8%	3.6%
Bank Prime	9.2%	9.3%	8.9%	8.8%	9.2%	9.2%	8.5%	8.0%	9.2%	9.7%	6.8%	6.6%
Existing Home Mortgage	8.0%	7.1%	6.6%	6.5%	8.0%	7.1%	6.5%	6.1%	8.0%	7.6%	6.1%	5.4%
INFLATION												
GDP Price Deflator	2.2%	1.8%	1.6%	1.9%	2.2%	1.9%	1.6%	1.7%	2.2%	3.1%	2.3%	1.0%
Personal Cons Deflator	2.4%	1.6%	1.5%	1.9%	2.4%	1.7%	1.5%	1.7%	2.5%	3.2%	2.8%	1.1%
Consumer Price Index	3.4%	2.2%	1.7%	1.9%	3.4%	2.3%	1.7%	1.7%	3.4%	3.9%	2.6%	0.8%

Forecast Begins the THIRD Quarter of 2000

PESSIMISTIC SCENARIO

The *Pessimistic Scenario* has been assigned a 25% probability of occurrence. DRI has nicknamed this scenario *The Perfect Storm*. In this case, several important factors turn south at once, causing an economic tempest. It assumes a severe winter and ongoing violence in the Middle East cause oil prices to surge to \$70 per barrel. But even before oil prices spike, the euro keeps tumbling. As a result, the European Central Bank's credibility is ruined. The stronger dollar takes its toll on exports. In addition, the localized shakeout in the dot-com sector eventually infects the entire stock market, causing it to decline further. Eventually, foreigners, dissatisfied with the returns on their U.S. assets, refuse to pour funds into this country. Consumer prices take off, with inflation headed above 5%.

The Federal Reserve raises its federal funds rate in an attempt to head off inflation, but this policy eventually causes the economy to sink into a recession. The stock market panics because of the rising oil prices, higher interest rates, and a re-emerging Asian recession. The S&P 500 drops 35%. As a result, household wealth erodes, taking consumer confidence down with it. Fortunately, the recession is short lived. Several factors point toward this outcome. First, it is unlikely that oil prices will stay above \$50 per barrel. Demand should fall as the weather turns milder. Higher oil prices will eventually cause oil supplies to increase. The combination of lower demand and increased supply will cause oil prices to retreat. Second, the Federal Reserve is expected to lower interest rates in order to restart the economy, a task made easier thanks to ebbing inflation pressures. The recession starts in 2001:3 and lasts three quarters.

Not surprisingly, the major departures between this scenario and the baseline scenario start in 2001. The recession contributes to the slow growth of Idaho nonfarm employment in both 2001 and 2002. In 2001, Idaho nonfarm employment post anemic growth of just 1.8%, its weakest showing since 1987. Employment growth virtually stalls in 2002, before rallying in 2003. Unfortunately, the faster growth in 2003 does not offset the slower growth in the previous two years. As a result, Idaho nonfarm employment in 2003 is almost 16,000 lower than in the baseline. The reduced employment lowers expectations for Idaho personal income. By 2003, Idaho nominal personal income is about \$0.6 billion lower than in the baseline case, and Idaho real personal income is off by \$1.2 billion in that same year.